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**U.S. POLICY OPTIONS TOWARD STOPPING NORTH
KOREA'S ILLICIT ACTIVITIES**

by

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December 2007

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ABSTRACT

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This thesis seeks to answer the question of why it took the United States over three decades to address the illicit activities of North Korea that purportedly fund its nuclear program.

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I. NORTH KOREAN ILLICIT ACTIVITIES

A. PURPOSE

North Korea began its involvement in illicit activities in the 1970s, but it took the United States until the new millennium to develop a series of major law enforcement approaches to counter these activities. North Korea's illicit activities are purportedly the funding input for the development of its nuclear weapons program, which constitutes the output. The main illicit activities to be discussed include drug production and trafficking, the counterfeiting of U.S. currency, cigarettes and pharmaceuticals, missile sales and human trafficking. The United States has aggressively addressed the nuclear threat that North Korea poses, but has been slow to address the inputs that fund the outputs.

This thesis seeks to answer the question of why it took the United States over three decades to address the illicit activities of North Korea that purportedly fund its nuclear program. This thesis will begin by examining the evolution of North Korea's illicit activities, the types of activities in which it is involved, and the estimated amounts of money that have potentially been contributed to its nuclear program. Secondly, it will examine the evolution of U.S. policy toward North Korea, followed by the reaction of the U.S. policy apparatus to its illicit activities. This examination will review the different approaches of recent administrations, and the current debate over whether a strong diplomatic approach or a strong law enforcement

approach would be more effective. Thirdly, these findings will be used to analyze the various U.S. policy options that could either dissuade or disable North Korea from further engaging in illicit activities. Finally, it will assess the reasons why the United States has not more heavily focused on the illicit activities that purportedly fund North Korea's nuclear program until the new millennium.

B. BACKGROUND

North Korea has a decades-long history of being involved in illicit activities that purportedly fund its nuclear weapons program. While many countries around the world are involved in illicit activities, North Korea's involvement and subsequent profits present a unique threat to not only Northeast Asian security, but global security. Its illicit activities, to include drug production and trafficking, the counterfeiting of U.S. currency, pharmaceuticals and cigarettes, and human trafficking, produce an estimated \$1 billion annual profit for the North Korean regime.¹ The unique threat that these profits present to regional security is that they are purportedly funneled into the research and development, production, and trafficking of ballistic missiles, missile base technology and nuclear-related technology. The technology and weapons developed from the profits of illicit activities go beyond use in just North Korea's inventory. North Korea has exported its technology to countries which could potentially deploy the weapons for their own use, or resell them, adding

¹ Raphael Perl and Dick K. Nanto, "North Korea Crime for Profit Activities," *Congressional Research Service*, RL33885, February 16, 2007, 2.

to the proliferation challenge. The United States' and regional reactions to this problem and their efficacy will be discussed, followed by future policy options and their potential consequences.

C. SIGNIFICANCE

Past research on North Korea's illicit activities focused on discussing the types of activities and estimated amounts of money that North Korea earns, as well as what U.S. policy options are available to curb these activities. More recent research concentrates on the newer issues of how law enforcement approaches have been integrated into U.S. foreign policy toward North Korea, and how to strike an effective balance between diplomacy and law enforcement.

An official debate as to whether or not North Korea is involved in illicit activities does not exist. However, many analysts have performed comparative studies about the monetary figures and volume of illicit trade figures which yield estimates, due to the difficulty of determining exact numbers because of North Korea's isolation. These analysts' differing assessments constitute the current debate which revolves around the type of approach which should be taken toward curbing North Korea's illicit activities. While there is wide debate about how the United States should approach North Korea, there is less literature involving the specifics of illicit activities. More broadly, there exists a sharp divide in the U.S. government as to whether a confrontational or an engagement strategy should be pursued toward North Korea in response to the myriad of threats which the country presents to the region. It is this broader debate and current policy that fuels differing views

on how to deal with North Korea's illicit activities. This debate is shaped by the arguments of two sides: the hardliners and the moderates.

In regard to U.S. policy toward North Korea, the hardliners' beliefs are shaped by the idea that negotiation with a "rogue nation," or one considered part of the "axis of evil" is not an option.² Hardliner views include that regime change should be a high priority, and that negotiation with North Korea will not produce the desired results.³ They criticize those favoring only diplomatic measures, dialogue, and financial incentives to coax North Korea into cooperation, and blame moderates for giving in to North Korean blackmail tactics. Hardliners argue that maintaining the decades old economic embargo will bring down Kim Chong Il, and that "regime change is the only way to end the threat from North Korea."⁴ They "see a more confrontational strategy as the best way to pursue a conclusion to the situation on the peninsula."⁵

More specific to illicit activities, they believe that addressing the inputs (illicit activities) will disable

² Mike Chinoy, "North Korea: Confront or Engage?" *Cable News Network*, December 13, 2002, <http://archives.cnn.com/2002/WORLD/asiapcf/east/12/13/nkorea.dilemma/index.html> (accessed August 5, 2007).

³ Bernard Gwertzman, "Council's North Korea Expert: U.S. Needs More Negotiating Flexibility to Achieve Accord on Ending North Korea's Nuclear Arms Program," *Council on Foreign Relations*, September 2, 2003, http://www.cfr.org/publication/6224/councils_north_korea_expert.html (accessed July 3, 2007).

⁴ "North Korea Plans To Build Light-Water Reactors," *Nuclear Threat Initiative*, December 20, 2005, http://www.nti.org/d_newswire/issues/2005/12/20/3bb5f35e-5961-4cf1-b66a-63fa735440fb.html (accessed July 2, 2007).

⁵ Victor D. Cha and David C. Kang. *Nuclear North Korea: A Debate on Engagement Strategies*. (New York, Columbia University Press, 2003), 4.

North Korea from producing outputs (a nuclear weapons program). For this reason, hardliners favor an aggressive, non-negotiable approach to contain North Korea's illicit activities through law enforcement pressure. A recent example that upsets hardliners is that North Korean funds totaling \$24 million dollars were unfrozen at Banco Delta Asia, a Macao bank investigated for facilitating North Korea's illicit transactions. Because the "North Koreans have said publicly that they will not comply with the bilateral agreement until the Banco Delta Asia funds are safely under their control," the funds were unfrozen to bring North Korea back to the Six Party Talks negotiation table.⁶ Hardliners argue that the use of Section 311 of the Patriot Act, which targets foreign banks that facilitate illicit activities, had been successful, until the lifting of the freeze, by putting pressure on the international financial community to not engage in North Korea's illicit transactions. Consequently, hardliners believe that not enforcing Section 311 will diminish its legitimacy.⁷

John Bolton, a senior fellow at the American Enterprise Institute and the former Under Secretary of State for Arms Control and International Security, is among the most vocal of hardliners. He criticized the return of these funds, as well as the Bush administration's allowance of a visit by Assistant Secretary of State Christopher Hill to North

⁶ John R. Bolton, "Pyongyang's Perfidy," *American Enterprise Institute for Public Policy*, May 18, 2007, http://www.aei.org/publications/filter.foreign,pubID.26203/pub_detail.asp (accessed August 8, 2007).

⁷ Farah Stockman, "Debate Swirls Over Fiscal Pinch on North Korea, Iran," *The Boston Globe*, June 18, 2007, http://www.boston.com/news/nation/washington/articles/2007/06/18/debate_swirls_over_fiscal_pinch_on_n_korea_iran/ (accessed July 2, 2007).

Korea. John Bolton stated that Hill's "Pyongyang visit symbolizes the full return of Clinton-era, bilateral negotiations with North Korea" and that Kim Chong Il is stalling to wait for "America's 2008 elections, when the Clinton era may return."⁸ Additionally, he argues that retreating from a tough stance will send "a bad signal to North Korea, and it is a bad signal to Iran."⁹ He claims that the freezing of funds was the leverage that the United States held over North Korea, which was negated, and this "quid pro quo is not only embarrassing, it sets a dangerous precedent for other regimes that would blackmail the United States."¹⁰

Despite John Bolton's criticism, hardliners generally favor the tougher stance of the Bush administration compared to the Clinton administration's use of negotiation and aid to lure North Korea into compliance with agreements and treaties. One such hardliner who is critical of the Clinton administration's approach is Chuck Downs, an Institute for Corean-American Studies fellow (ICAS, Inc.) and former senior official of the Pentagon and State Department.¹¹ Chuck Downs' belief is that the Clinton years of giving

⁸ Both quotes in this sentence come from the following article: John R. Bolton, "Pyongyang Pussyfooting," *American Enterprise Institute for Public Policy Research*, July 3, 2007, http://www.aei.org/publications/filter.foreign,pubID.26441/pub_detail.asp (accessed August 8, 2007).

⁹ Bill Gertz, "Bolton Hits Agreement as Bad Signal to Iran," *The Washington Times*, February 14, 2007, www.iranfocus.com (accessed August 4, 2007).

¹⁰ John R. Bolton, "Pyongyang's Perfidy," *American Enterprise Institute for Public Policy*, May 18, 2007, http://www.aei.org/publications/filter.foreign,pubID.26203/pub_detail.asp (accessed August 8, 2007).

¹¹ The job title for Chuck Downs was found on: http://www.icasinc.org/bios/downs_c.html, (accessed August 7, 2007).

chances to North Korea only empowered it because the administration "premised its policy on the belief that North Korean behavior will be moderated by the regime's fear of impending collapse, and its eagerness to attain certain benefits - including the huge amounts of aid that the administration has extended to the regime."¹²

The other side of the debate about how to address North Korea is comprised of the moderates. The moderates argue that the U.S. policy toward North Korea should include a strategy that engages the country, and believes that "we're never going to get anywhere by further trying to isolate a regime that is already the most isolated on the planet."¹³ This side views North Korea as a "victim of great power politics" and that the United States has a responsibility to negotiate a resolution to the nuclear crisis.¹⁴ In regard to the North Korean bank account freeze, some moderates believe that increasing law enforcement pressure on North Korea will derail diplomatic options, and such containment could become an obstacle to future dialogue and negotiations on the nuclear issue. Additionally, applying too much financial pressure on North Korea may cause an economic implosion of the regime that could cause it to act irrationally, and potentially threaten the security of the

¹² Chuck Downs, "North Korea - U.S. Relations: Issues and Answers," *The ICAS Lectures*, No. 2000-0211-ChD, Winter Lecture Symposium,: Asia's Challenges Ahead, University of Pennsylvania, February 11, 2000, <http://www.icasinc.org/2000/2000w/2000wchd.html> (accessed August 7, 2007).

¹³ Mike Chinoy, "North Korea: Confront or Engage?" *Cable News Network*, December 13, 2002, <http://archives.cnn.com/2002/WORLD/asiapcf/east/12/13/nkorea.dilemma/index.html> (accessed August 5, 2007).

¹⁴ Victor D. Cha and David C. Kang. *Nuclear North Korea: A Debate on Engagement Strategies*. (New York, Columbia University Press, 2003), 5.

region. By not engaging North Korea both diplomatically and economically to address the "underlying economic and security conditions that have led Pyongyang down the nuclear path, the world is inevitably going to face another North Korea crisis."¹⁵

Victor Cha, a moderate, and the former Director for Asian Affairs of the National Security Council, argues that "engagement should be the desired strategy for 'hawks' (hardliners) because this is the best practical way to build a coalition for punishment tomorrow."¹⁶ If the United States allows North Korea to have a stake in its future by providing it opportunities to become engaged both politically and economically in a positive manner in the region, it may feel more compelled to cooperate in order not to face negative consequences. Along the lines of engagement, Victor Cha suggests that "lifting sanctions, letting the North gain what little it can from new opportunities thus made available, and then using the possibility of reinstating sanctions as a potential stick later, is more likely to elicit changes in behavior."¹⁷ By precluding North Korea from having any stake in its future, it has no encouragement to cooperate. Moreover, if the region sees the United States extending opportunities for North Korea to change, and "should engagement fail, the

¹⁵ Robert M. Hathaway, "Supping with the Devil," *World Policy Journal*, (Winter 2003-04), 87, <http://www.worldpolicy.org/journal/articles/wpj03-4/hathaway.pdf> (accessed August 8, 2007).

¹⁶ Victor D. Cha and David C. Kang. *Nuclear North Korea: A Debate on Engagement Strategies*. (New York, Columbia University Press, 2003), 89.

¹⁷ *Ibid.*, 92.

United States would be far better situated to enlist other regional players in tightening the screws on Pyongyang."¹⁸

Another vocal moderate is Jack Pritchard, the President of the Korea Economic Institute, and a former aide to President Bush, who "quit the State Department in protest against the Bush Administration's reluctance to deal directly with North Korea."¹⁹ Jack Pritchard has been critical of the Bush administration's approach to North Korea because of its refusal to deal one-on-one with North Korea until Assistant Secretary of State Chris Hill's February 2007 visit to Pyongyang.

In a press briefing while Jack Pritchard was the Director of Asian Affairs for the National Security Council during the Clinton administration, it was evident why he would not agree with the current administration's no-dialogue position toward North Korea. He stated that "it cannot be understated how much the North Koreans ultimately value, and will depend upon a more normal relationship with the United States."²⁰ If North Korea wants a relationship with the United States, but cannot get its attention, what option does it have other than to call negative attention to

¹⁸ Robert M. Hathaway, "Supping with the Devil," *World Policy Journal*, (Winter 2003-04), 87, <http://www.worldpolicy.org/journal/articles/wpj03-4/hathaway.pdf> (accessed August 8, 2007).

¹⁹ Bernard Gwertzman, "Pritchard: Latest Talks on North Korea 'Successful' Due to Major Changes by United States," *Council on Foreign Relations*, August 8, 2005, <http://www.cfr.org/publication/8597/pritchard.html?jsessionid=1315fd3d3b76f72333b3bb2f841e0f27>, (accessed August 8, 2007).

²⁰ Jack Pritchard and Larry Summers, "Press Briefing by Jack Pritchard and Larry Summers," Tokyo, Japan, *Office of the Press Secretary*, November 20, 1998, <http://www.clintonfoundation.org/legacy/112098-press-briefing-by-jack-pritchard-and-larry-summers.htm> (accessed August 8, 2007).

itself? In regard to its proliferation of missiles through sales of its indigenous weapons, he makes it clear that North Korea engages in such activities because they "are a cash-strapped nation, which accounts for some of their motivation for the proliferation" of missiles.²¹ While these statements were made in a briefing prior to President George W. Bush taking office, it is understandable why he would not align himself with a hardliner stance toward North Korea.

D. ORGANIZATION

The application of U.S. foreign policy toward North Korea has evolved based on the threat that the regime's activities present to the region and U.S. interests. This thesis examines the evolution of North Korea's activities, and the reaction of U.S. foreign policy to these activities. It will seek to determine how North Korea's illicit activities began over three decades ago, flourishing into a \$1 billion dollar a year business, but substantive U.S. policy reactions to curb these activities have only been implemented since 2003.

Chapter II examines the evolution of North Korea's involvement in illicit activities. It will assess the economic and natural disaster phenomena that have occurred over the past three decades which have contributed to its involvement to sustain the regime, as well as fund its nuclear program. The heavy involvement of the North Korean

²¹ Jack Pritchard and Larry Summers, "Press Briefing by Jack Pritchard and Larry Summers," Tokyo, Japan, *Office of the Press Secretary*, November 20, 1998, <http://www.clintonfoundation.org/legacy/112098-press-briefing-by-jack-pritchard-and-larry-summers.htm> (accessed August 8, 2007).

government contributes to its success in developing networks to traffic its illicit goods. From its North Korean government's Division #39, to the military and criminal elements, the North Korean government is involved in the funding, production and trafficking of illicit goods. The illicit goods to be examined in this chapter include the production and trafficking of drugs, the counterfeiting of U.S. currency, cigarettes and pharmaceuticals, the sale of missiles and missile base technology, human trafficking, and other illicit activities.

Chapter III reviews the evolution of U.S. policy toward North Korea, beginning with a brief overview of Cold War policy from the Truman administration through the G. H. W. Bush administration. It will then examine in more detail how the Clinton and G. W. Bush administrations have shaped recent policies toward North Korea in the aftermath of its economic decline and natural disasters, which have contributed to its increased involvement in illicit activities. Finally, the initiatives developed during the G. W. Bush administration will be presented, accompanied by a look at factors that could contribute to each initiative's success or failure.

Chapter IV examines the implications of North Korea's illicit activities on not only itself, but on the region and U.S. interests. An analysis of U.S. policy options based on the debate between hardliners and moderate approaches, as well as their potential consequences will be presented.

Chapter V presents conclusions about the possibilities of why it has taken the United States three decades to

directly address the illicit activities of North Korea, and will offer prospects for the future regarding U.S. policy recommendations.

II. THE EVOLUTION OF NORTH KOREA'S ILLICIT ACTIVITIES

A. WHY NORTH KOREA BECAME INVOLVED IN ILLICIT ACTIVITIES

North Korea's involvement in illicit activities began to take form in the 1970s.²² A combination of problems resulting from the regime's poor financial mismanagement drove North Korea to supplement its income. Because North Korea imports double the amount of what it exports, it has experienced decades of trade deficits.²³ For example, since 1990, North Korea has accumulated a \$10 billion trade deficit in its economic relations with China and South Korea.²⁴ In 2003 alone, North Korea had an \$835 million trade deficit.²⁵ Additionally, North Korea has failed to pay back loans, accounting for a \$12 billion accumulation of loan defaults, contributing to its inability to procure further loans on the international market.²⁶

North Korea's main trading partners: China, South Korea, Japan, Russia and Thailand have enabled North Korea to survive by trading items that North Korea cannot produce

²² Raphael Perl and Dick K. Nanto, "North Korea Crime for Profit Activities." *Congressional Research Service*, RL33885, February, 16, 2007, 2.

²³ Dick K. Nanto, Emma Chanlett-Avery. "The North Korean Economy: Overview and Policy Analysis." *Congressional Research Service*, RL32493, (April 18, 2007), 2.

²⁴ David L. Asher, "The North Korean Criminal State, its Ties to Organized Crime, and the Possibility of WMD Proliferation," *Policy Forum Online*, 05-92A: November 15, 2005, <http://www.nautilus.org/fora/security/0592Asher.html> (accessed May 2, 2007).

²⁵ Ibid.

²⁶ Ibid.

for itself.²⁷ While these trading partners generally trade legitimate goods, the opportunity for North Korea's criminal elements to coordinate with the criminal elements of its trading partner countries arose. These relationships are what have facilitated the trafficking of illicit goods around the world by sea, land and air. North Korea has developed relationships with both Chinese and Russian criminal elements, facilitating the trafficking of illicit goods through its borders.

The relationships between criminal elements that were established in the 1970s paved the way for North Korea's increased involvement in illicit activities that would take place in the 1990s. Since 1990, North Korea has experienced twelve years of intermittent floods, droughts and famines, which killed over two million North Koreans, and caused 200,000 refugees to flee to China for survival.²⁸ Because of North Korea's dire economic and social situation caused by these natural phenomena, its involvement in illicit activities increased exponentially. It was during this time that North Korea realized its potential to profit from its illegal activities, funneling those monies not into the sustenance of its population through food and development, but into the research, development, production and trafficking of missiles and nuclear-related technology.

²⁷ David L. Asher, "The North Korean Criminal State, its Ties to Organized Crime, and the Possibility of WMD Proliferation," *Policy Forum Online*, 05-92A: November 15, 2005, <http://www.nautilus.org/fora/security/0592Asher.html> (accessed May 2, 2007).

²⁸ May Lee, "Famine May Have Killed Up To 2 Million in North Korea," *Cable News Network*, August 19, 1998, <http://www.cnn.com/WORLD/asiapcf/9808/19/nkorea.famine/> (accessed May 6, 2007).

Ironically, North Korea rejected aid from the World Food Program in 2005, but consistently accepts aid assistance from China and South Korea, to include grants, loans, fuel and food.²⁹

B. HOW NORTH KOREA MANAGES ITS ILLICIT ACTIVITIES

The relationships with trafficking partners were not forged underground. The North Korean government is highly involved in the direction of these activities, in particular, with oversight from the Korean Workers' Party, Division #39.³⁰ Within the Korean Workers' Party, there exists an entire network of business elements, each conducting a specific function to facilitate illicit transactions. For example, the Daesong Group, Daesong Bank and the Goldenstar Bank in Vienna, Austria facilitate the sales and trafficking of North Korea's illicit goods.³¹ The combination of these three business elements has 20 overseas branches, as well as overseas assets totaling \$5 billion.³²

Not only are the financial and transportation branches of the North Korean government involved, but agricultural and security elements play a large role in the production of the drugs that are trafficked out of the country. As North

²⁹ Tim Johnson, "North Korea Rejects Foreign Food Aid," *The Boston Globe*, Knight Ridder, December 16, 2005, http://www.boston.com/news/world/asia/articles/2005/12/16/north_korea_rejects_foreign_food_aid/ (accessed June 6, 2007).

³⁰ Balbina Y. Hwang, "Curtailing North Korea's Illicit Activities," *The Heritage Foundation*, August 25, 2003, <http://www.heritage.org/Research/AsiaandthePacific/bg1679.cfm> (accessed May 4, 2007).

³¹ Ibid.

³² Balbina Y. Hwang, "Curtailing North Korea's Illicit Activities," *The Heritage Foundation*, August 25, 2003, <http://www.heritage.org/Research/AsiaandthePacific/bg1679.cfm> (accessed May 4, 2007).

Korean agricultural production is directed by the government, the production of poppy seeds is likewise controlled. Typically, 25 percent of agricultural production is diverted from food production to accommodate poppy fields, which are protected by armed guards of the North Korean security apparatus.³³

The North Korean Navy is heavily involved in the trafficking of illicit goods. Because military ships function as an official arm of the government, navy operations provide an additional means to facilitate the smuggling of goods.³⁴ Because the North Korean government fears the defection of its naval crews, the families of crewmembers are placed on house arrest until the return of the multi-purpose naval mission.³⁵

The droughts, floods and famines of the 1990s produced North Korea's internal problems; however external factors contributed to its economic demise and the need to expand its involvement in illicit activities. The fall of the Soviet Union left North Korea to its own devices following the termination of what little aid it did provide toward the end of its existence. Additionally, as the Soviet Union became exposed to new market opportunities, North Korea lost its market share in trade, as well as an ideological partner and mentor.

Because of what North Korea lacked in legitimate trade with its neighbors, the 1990s became the decade during which

³³ Alan Boyd, "North Korea: Hand in the Cookie Jar," *Asia Times Online*, April 29, 2003, <http://www.atimes.com/atimes/Korea/ED29Dg01.html> (accessed May 2, 2007).

³⁴ Ibid.

³⁵ Ibid.

it propelled itself into the illegal trade of missiles and rockets to close the gap. Its expanded involvement in illicit activities produced large profits which became dedicated to the production and trafficking of rockets and missiles. The high demand for weapons, coupled with North Korea's need to close the economic gap that decades of financial mismanagement, natural disasters and geopolitical changes produced, created a ripe environment for illicit activities.

C. TYPES OF ILLICIT ACTIVITIES IN WHICH NORTH KOREA IS INVOLVED

1. Drugs

The production and trafficking of drugs has proven to be a very profitable avenue for North Korea to pursue. Currently, North Korea is the third largest producer of opium, the sixth largest producer of heroin, and is a large producer of methamphetamines, cocaine and ecstasy.³⁶ North Korea quickly realized the profit for potential during the 1990's for the production of opium. Because of the high profit margin on these sales, opium production increased more than sixteen-fold from its 1992 amount of only three tons, to fifty tons in 1997.³⁷

³⁶ Ah Young Kim, "A Narcotic State: Halt North Korea's Drug Habit," *International Herald Tribune*, June 18, 2003, http://www.iht.com/articles/2003/06/18/edkim_ed3_.php (accessed June 2, 2007).

³⁷ Balbina Y. Hwang, "Curtailing North Korea's Illicit Activities," *The Heritage Foundation*, August 25, 2003, <http://www.heritage.org/Research/AsiaandthePacific/bg1679.cfm> (accessed May 4, 2007).

North Korea has a strong customer base in the Asia-Pacific basin, illicitly exporting over 50 percent of its methamphetamine supply to Japan, which has over 600,000 addicts.³⁸ Taiwan is a consumer of North Korea's heroin, which experienced a large seizure of 79 kilograms being smuggled into the country.³⁹ Australia is also a consumer of North Korean drugs, and was involved in an incident which contributed to raising awareness about North Korea's illicit activities after a high-profile drug seizure.

The seizure of a North Korean ship, the Pong Su, became the impetus for U.S. and regional policies geared toward countering the smuggling of illicit goods. In April 2003, the North Korean ship was attempting to deliver a heroin shipment of 125 kilograms with a street value of \$150 million.⁴⁰ The ship was intercepted at sea, and was found to be registered to the Pacific island of Tuvalu, which had a crew of North Koreans, as well as citizens of Malaysia and Singapore on board. This intercept and seizure demonstrated that North Korea has involved criminal elements of its Asian neighbors into its illicit activity ring. This intercept and seizure became a high-profile incident that would eventually lead to a series of meetings, programs, initiatives and policies directed toward curtailing North

³⁸ Balbina Y. Hwang, "Curtailing North Korea's Illicit Activities," *The Heritage Foundation*, August 25, 2003, <http://www.heritage.org/Research/AsiaandthePacific/bg1679.cfm> (accessed May 4, 2007).

³⁹ Alan Boyd, "North Korea: Hand in the Cookie Jar," *Asia Times Online*, April 29, 2003, <http://www.atimes.com/atimes/Korea/ED29Dg01.html> (accessed May 2, 2007).

⁴⁰ David L. Asher, "The North Korean Criminal State, its Ties to Organized Crime, and the Possibility of WMD Proliferation," *Policy Forum Online*, 05-92A: November 15, 2005, <http://www.nautilus.org/fora/security/0592Asher.html> (accessed May 2, 2007).

Korea's ability to smuggle illicit goods. These measures will be further discussed in Chapter III.

An increased profit potential has affected how the North Korean government influences agricultural policy. Because the government directs which farms produce which crops, and how much, it was able to shift the acreage allotment toward the production of poppy for opium. For example, in 1992, North Korea designated only 4.3 million acres to poppy production.⁴¹ Only one year later, 42 million acres of land were dedicated, and by 1994, 72 million acres of land were diverted from food production to the growth of poppy seed.⁴²

Because the 1990s produced continual natural disasters such as floods and droughts, North Korea's ability to produce poppy seeds was severely affected. These natural phenomena, coupled with the high-profile seizure of the Pong Su ship used to smuggle drugs, forced North Korea to rethink its illicit activities strategy. Consequently, North Korea directed its focus on a lower-profile activity, the profitable crime of counterfeiting.

2. Counterfeiting

North Korea's involvement in counterfeiting similarly began during turbulent economic times, and has developed and improved according to market demands and the introduction of new products to counterfeit. The counterfeiting of U.S.

⁴¹ Ah Young Kim, "Targeting Pyongyang's Drug Trade Addiction," *Asia Times Online*, June 18, 2003, <http://www.atimes.com/atimes/Korea/EF18Dg02.html> (accessed April 20, 2007).

⁴² Ibid.

currency, Chinese Yuan, pharmaceuticals and cigarettes are among North Korea's most successful products to counterfeit for illicit export.

North Korea's philosophy toward counterfeiting U.S. currency is multi-faceted. Producing and utilizing a strong U.S. dollar helped to maintain the regime's legitimacy, and "could be justified under the juche (self-reliance) ideology," because it "allowed the regime to advertise its anti-capitalist, anti-American credentials."⁴³ While international law interprets the counterfeiting of currency as an act of war, the United States has not pursued a strong retaliatory option, and has had a difficult time stopping the counterfeiting of its currency.

The Pyongyang Trademark Printing House, established in 1981, is responsible for the reproduction of U.S. currency.⁴⁴ At a very profitable 40-cent production cost per note, North Korea exclusively counterfeits \$100 bills, known as "supernotes."⁴⁵ Estimates indicate that North Korea produces and floods the global financial market with over \$10 million a year in counterfeit U.S. currency.⁴⁶ Over \$2 million of counterfeit "supernotes" were seized at

⁴³ Stephen Mihim, "No Ordinary Counterfeit," *The New York Times*, July 23, 2006, <http://www.nytimes.com/2006/07/23/magazine/23counterfeit.html> (accessed October 5, 2007), quote by Sheena Chestnut.

⁴⁴ Balbina Y. Hwang, "Curtailing North Korea's Illicit Activities," *The Heritage Foundation*, August 25, 2003, <http://www.heritage.org/Research/AsiaandthePacific/bg1679.cfm> (accessed May 4, 2007).

⁴⁵ Sheena Chestnut, "'Soprano state': N. Korea Called Dependent on Organized Crime," *World Tribune*, December 1, 2005, <http://www.worldtribune.com/worldtribune/05/front2453706.052777778.html> (accessed May 15, 2007).

⁴⁶ "North Korea's Counterfeit Con," *PBS Nightly Business Report*, July 6, 2006, <http://www.pbs.org/nbr/site/onair/transcripts/060706c/> (accessed June 2, 2007).

the Los Angeles port, demonstrating that North Korea has developed trafficking relationships with U.S.-based criminal elements.⁴⁷

The United States is not the only victim of North Korea's currency counterfeiting scheme, as China suspects that North Korea is producing counterfeit Yuan.⁴⁸ China faces a double threat from counterfeiting activities for two reasons. First, counterfeiting the Chinese Yuan threatens the stability of its own currency. Secondly, because of the heavily interdependent commerce relationship between China and the United States, counterfeit Yuan or U.S. dollars have the potential to derail the already damaged Chinese financial system.

North Korea's cigarette counterfeiting activities involve the production of United States, British and Japanese cigarette brands, and have increased as other illicit activities have gained negative attention.⁴⁹ The production of international cigarette brands has creatively followed market trends based on consumer demand. For example, Camel brand cigarettes were a highly counterfeited item for many years. However, as the Marlboro brand gained popularity, North Korea adjusted its production to the

⁴⁷ "Southern California Man Pleads Guilty In Schemes To Smuggle Narcotics, Cigarettes, Counterfeit Money And Surface-To-Air Missiles Into United States," *United States Department of Justice Press Release*, April 19, 2006, <http://losangeles.fbi.gov/dojpressrel/pressrel06/la041906usa1.htm> (accessed June 3, 2007).

⁴⁸ Guo Shipeng and John Ruwitch, "China Grapples with North Korea's Illicit Dealings," *Yahoo! Asia News*, *Reuters*, August 1, 2005, <http://asia.news.yahoo.com/060801/3/2nv5v.html> (accessed June 3, 2007).

⁴⁹ Todd Bullock, "Narcotics, Counterfeiting Help Fund North Korea, U.S. Says," *United States Department of State Website*, April 26, 2006, <http://usinfo.state.gov/eap/Archive/2006/Apr/26-294718.html> (accessed June 1, 2007).

Marlboro brand.⁵⁰ While the destination of a majority of counterfeited cigarettes is to overseas markets, a portion of these products are sold in the country of the brand name's source. For example, estimates indicate that one shipping container's worth of counterfeit cigarettes, measuring forty feet, is smuggled into the United States every month.⁵¹ International crime rings are again being exposed as an accomplice to North Korea's activities. In 1995, a ship originating in Taiwan destined for North Korea was seized with cigarette paper printed with the Marlboro brand.⁵² This paper shipment was intended for use in North Korean counterfeit cigarettes, which contained enough paper wrappers to have an estimated street value of \$1 billion.⁵³

A third product targeted for counterfeiting is pharmaceuticals. As the agricultural department directs the allocation of farm fields for the production of poppy, the government similarly directs the health department's legitimate pharmaceutical companies to allocate a portion of their production to counterfeit medications.

⁵⁰ "North Korea's Counterfeit Con," *PBS Nightly Business Report*, July 6, 2006, <http://www.pbs.org/nbr/site/onair/transcripts/060706c/> (accessed June 2, 2007).

⁵¹ William Bach, "Drugs, Counterfeiting, and Arms Trade: The North Korean Connection," *United States Department of State Website*, May 20, 2003, <http://www.state.gov/p/inl/rls/rm/21044.htm> (accessed June 2, 2007).

⁵² David L. Asher, "The North Korean Criminal State, its Ties to Organized Crime, and the Possibility of WMD Proliferation," *Policy Forum Online*, 05-92A: November 15, 2005, <http://www.nautilus.org/fora/security/0592Asher.html> (accessed May 2, 2007).

⁵³ *Ibid.*

3. Human Trafficking

North Korea's active involvement in the trafficking of people has earned it a Tier 3 ranking on the U.S. Department of State's Trafficking in Persons Report.⁵⁴ A Tier 3 rank has been placed on North Korea's activities because the country neither satisfies the "minimum standards, nor demonstrates a significant effort to come into compliance" to eliminate human trafficking.⁵⁵

Human trafficking from North Korea focuses on providing its neighboring Chinese province of Jilin with men, women and children for a number of services and reasons.⁵⁶ Girl children and women are trafficked for the purpose of marriage and sexual exploitation, while men, women and children are trafficked as forced labor in factories and other labor-intensive jobs. North Korea sells its citizens to Chinese trafficking agents for a price ranging from \$50 - \$625, and estimates indicate that approximately 50,000 North Koreans are currently living in China as trafficked peoples.⁵⁷

While North Korea holds the blame for trafficking its own citizens for profit, the recipient country's demand is equally culpable. China's one-child policy and preference for male children results in high rates of female infanticide, contributing to the high demand for women. Because this demand exists throughout China, and Jilin

⁵⁴ "Facts About Human Trafficking," *United States Department of State Bureau of Public Affairs*, May 24, 2004, <http://www.state.gov/r/pa/ei/rls/33109.htm> (accessed May 7, 2007).

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

province neighbors an impoverished and corrupt North Korean regime that is willing to supply the demand, an end to this illicit activity is a human rights challenge.

While Chinese social conditions demand the need for North Korean marriage partners, objects of sexual exploitation and hard laborers, the Chinese government further complicates the plight of these victims by not granting them legal status. Trafficked North Koreans hold no legal, work or protective rights while they work and reside in China, which jeopardizes their safety and security.⁵⁸ Coincidentally, China was a signatory to a 1951 United Nations Convention Relating to the Status of Refugees, which prohibits it from forcing human trafficked persons and refugees back to their home country.⁵⁹ However, China does not comply with the convention which it signed. China's inconsistent behavior endangers these human trafficking victims because they are subject to their buyer's treatment, and again face danger when they are deported back to North Korea. For example, the Chinese government conducts occasional round-ups of trafficked North Koreans and returns them to the North Korean government, which then determines a punishment.⁶⁰ These punishments include imprisonment, torture or death. Those victims

58 "North Korea: Trafficking in Women and Forced Labor," *Anti-Slavery International*, June 10, 2005, <http://www.antislavery.org/archive/submission/submission2005-northkorea.htm> (accessed April 29. 2007).

59 "U.S. Lawmaker Says China Returns North Korean Asylum Seekers," *United States Department of State Bureau of Public Affairs*, April 28, 2006, <http://usinfo.state.gov/eap/Archive/2006/Apr/28-891407.html> (accessed October 5, 2007).

60 "North Korea: Trafficking in Women and Forced Labor," *Anti-Slavery International*, June 10, 2005, <http://www.antislavery.org/archive/submission/submission2005-northkorea.htm> (accessed April 29. 2007).

facing imprisonment typically are forced to work in North Korea's labor camps, leaving no one exempt. Man, woman, child, young, old, pregnant or disabled, North Korea punishes the very victims of human trafficking that the government facilitates. Forced labor camps typically provide the North Korean government with services such as farming, construction, firewood and brick making.⁶¹ Estimates indicate that the number of North Korean internally displaced persons (IDP) ranges from 50,000 to 250,000.⁶²

4. Other Illicit Activities

North Korea is also involved in a number of lower-profile illicit activities to include missile sales, document forging, gambling, illegal fishing, insurance fraud, and the trafficking of rhino horns, ivory and conflict diamonds.⁶³ The sale of ballistic missiles, missile base technology and nuclear-related materials has provided North Korea with profits of over \$560 million in 2001.⁶⁴ However, this figure is on the decline since the

⁶¹ "North Korea: Trafficking in Women and Forced Labor," *Anti-Slavery International*, June 10, 2005, <http://www.antislavery.org/archive/submission/submission2005-northkorea.htm> (accessed April 29. 2007).

⁶² "The World Factbook," *Central Intelligence Agency website*, <https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html> (accessed September 10, 2007).

⁶³ Marcus Noland, "How North Korea Funds Its Regime," *Peter G. Peterson Institute For International Economics - Speeches, Testimony, Papers*, April 25, 2006, <http://www.iie.com/publications/print.cfm?doc=pub&ResearchID=629> (accessed June 3, 2007).

⁶⁴ Balbina Y. Hwang, "Curtailing North Korea's Illicit Activities," *The Heritage Foundation*, August 25, 2003, <http://www.heritage.org/Research/AsiaandthePacific/bg1679.cfm> (accessed May 4, 2007).

inception of the Proliferation Security Initiative in 2003, designed to intercept such shipments.⁶⁵ The sale of these weapons and related materials are known to have been sold to Libya, Pakistan, Iran, Egypt, Syria, Yemen, Venezuela and Vietnam, which threatens regional and U.S. interests if the weapons are utilized, or further proliferated to other rogue nations or non-state actors.⁶⁶

North Korea's involvement in illicit activities has surfaced over the past few decades in a number of incidents involving North Korean diplomats stationed at overseas consulates and embassies. In addition to diplomats being caught using counterfeit U.S. "supernotes," as was documented in 1989 in Manila, and over \$250,000.00 being deposited into a Macao bank in 1994,⁶⁷ diplomats have been caught passing forged documents in Belgrade, and were apprehended in France en route from Cameroon with 20 suitcases containing 576 kilograms of ivory tusks.⁶⁸ Fraudulent insurance claims filed for death and accidents

⁶⁵ Jay Solomon and Gordon Fairclough, "North Korea's Counterfeit Goods Targeted," *Wall Street Journal Online*, http://uniset.ca/terr/news/wsj_nkoreacounterfeiting.html (accessed September 10, 2007).

⁶⁶ "Tokyo Daily: N. Korea Increasing Missile Exports To Mideast," *World Tribune*, May 16, 2003, http://www.worldtribune.com/worldtribune/WTARC/2003/ea_nkorea_05_16.html (accessed June 3, 2007).

⁶⁷ Bill Gertz, "North Korea Charged in Counterfeiting of U.S. Currency," *The Washington Times*, December 2, 2005, http://www.washingtontimes.com/world/20051201-103509-5867r_page2.htm (accessed June 1, 2007).

⁶⁸ "Seizures and Prosecutions," *Traffic Bulletin*, Volume 17, No. 3, January 1999, <http://www.traffic.org/bulletin/archive/january99/seizures-europe.html> (accessed June 1, 2007).

top over \$150 million through British insurance companies.⁶⁹ These few examples demonstrate that North Korea utilizes the counterfeit U.S. "supernotes" to facilitate other illicit activities.

The following chapter will discuss how North Korea's involvement in illicit activities has been addressed by U.S. foreign policy.

⁶⁹ George Russell, "North Korea Suspected of Collecting Millions in Insurance Fraud," *Fox News*, December 4, 2006, <http://www.foxnews.com/story/0,2933,234127,00.html> (accessed June 1, 2007).

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III. THE EVOLUTION OF U.S. POLICY TOWARD NORTH KOREA

A. INTRODUCTION

This chapter will examine the evolution of U.S. policy toward North Korea with a short chronology from the Cold War through the present. In examining these policies, as well as the geopolitical situation in the region, it will retrospectively attempt to determine if there had been signals that North Korea might become involved in illicit activities. It will seek to determine at what point the U.S. policy apparatus began looking at illicit activities as a threat to regional security and U.S. interests. Finally, this chapter will examine the diplomatic and law enforcement measures that have been implemented in reaction to North Korea's illicit activities.

B. OVERVIEW OF U.S. POLICY TOWARD NORTH KOREA - THE COLD WAR ADMINISTRATIONS

U.S. policy toward North Korea during the Cold War was one of containment, beginning with President Truman, whose administration brought the United States out of its "passive, isolationist stance, to that of an active participant."⁷⁰ A review of the U.S. national security strategy determined that "victory of Communist forces in the Chinese Civil War and the successful detonation of an atomic weapon by the Soviet Union" posed a threat to U.S.

⁷⁰ "NSC-68, 1950," *Department of State Website*, <http://www.state.gov/r/pa/ho/time/cwr/82209.htm> (accessed September 10, 2007).

interests.⁷¹ What derived from this review was National Security Council Paper NSC-68, which would become the most important document influencing U.S. foreign policy during the Cold War. NSC-68 recommended a massive build-up of conventional and nuclear weapons to counter the Soviet threat of communist expansion. NSC-68 postured the United States to contain the Soviet threat through rearmament, mobilization, economic and political support to counter communist expansion, which would transpire during the Korean War, and again during the Vietnam War. By amplifying both weapons and troop strength, Truman increased the defense budget three-fold in support of a military build-up against communism.⁷² This phenomenon would continue throughout the Cold War, most notably during the Reagan administration.

The United States' interest to limit Soviet influence on the Korean peninsula after World War II created a Korea halved by ideologically polarized powers and influences, which would erupt into the Korean War only a few years later. While the armistice created a tense peace that has lasted until the present, North Korea's stressful provocations threatened regional stability throughout the Cold War. These incidents include the capture of the USS Pueblo in 1968, the shoot-down of a U.S. EC-121 aircraft in

⁷¹ "NSC-68, 1950," *Department of State Website*, <http://www.state.gov/r/pa/ho/time/cwr/82209.htm> (accessed September 10, 2007).

⁷² *Ibid.*

1969, the shoot-down of Korean Air Lines flight 858 in 1988, as well as multiple altercations at the demilitarized zone.⁷³

The Cold War's most threatening development was that of nuclear weapons and intercontinental ballistic missiles, which contributed to stress in the region as North Korea began researching atomic energy in the 1960s with Soviet support.⁷⁴ This development came in response to the United States posturing nuclear weapons against the North, from South Korea as of 1957.⁷⁵ It would not be until 1985 that President Reagan's foreign policy efforts would result in North Korea's signature to the Nuclear Non-Proliferation Treaty (NPT). However, compliance to the International Atomic Energy Agency's (IAEA) safety conditions were violated, and threats of withdrawal and inspection refusals occurred during and beyond the Cold War. The last U.S. leader during the Cold War, President G. H. W. Bush, led the withdrawal of the last of the remaining nuclear weapons from the Korean peninsula in 1991,⁷⁶ but this would not stop North Korea from further developing nuclear weapons and intercontinental ballistic weapons for not only itself, but to proliferate to other rogue nations and non-state actors.

⁷³ "U.S. - North Korean Relations Timeline: 1853-2006," *British American Security Information Council*, October 19, 2006, <http://www.basicint.org/nuclear/northkorea-chronology.htm> (accessed July 20, 2007).

⁷⁴ Steven Aftergood, Hans M. Kristensen, "Nuclear Weapons Program," *Federation of American Scientists*, November 16, 2006, <http://www.fas.org/nuke/guide/dprk/nuke/index.html> (accessed September 27, 2007).

⁷⁵ "U.S. - North Korean Relations Timeline: 1853-2006," *British American Security Information Council*, October 19, 2006, <http://www.basicint.org/nuclear/northkorea-chronology.htm> (accessed July 20, 2007).

⁷⁶ Ibid.

C. OVERVIEW OF U.S. POLICY TOWARD NORTH KOREA DURING THE CLINTON AND G. W. BUSH ADMINISTRATIONS

The changes on the geopolitical front that emerged after the fall of the Soviet Union presented both opportunities and challenges for U.S. foreign policy measures toward North Korea. At the end of the Cold War, North Korea lost the Soviet financial and ideological support that had aligned it with the communist bloc. This loss, coupled with North Korea's natural disasters of the 1990s, created both a financial and human disaster for the ideologically isolated country.

Previous U.S. administrations had built up both military and weapons defenses for decades against the Cold War's nuclear threat, and applied policies geared toward containment. However, the new challenges facing North Korea would require a different approach to lure North Korea into the international community and away from the development of nuclear weapons. While responses to this challenge have evolved with limited success, post-Cold War U.S. administrations have taken, and are taking, very divergent policy approaches toward North Korea.

The Clinton administration was faced with an increasingly belligerent North Korea that only intermittently cooperated with the guidelines of the NPT. North Korea refused to allow inspectors into the country, and when it did, it forced inspectors to work by flashlight.⁷⁷ North Korea also underreported its inventory

⁷⁷ "North Korea Nuclear/Missile Chronology - 1962-2000," *The Wisconsin Project on Nuclear Arms Control*, Volume 6 Number 6 (November-December 2000), <http://www.wisconsinproject.org/countries/nkorea/nuke-miss-chron.htm> (accessed September 27, 2007).

and threatened that economic sanctions equate to a declaration of war.⁷⁸ President Clinton's first year in office dealt with North Korea ending its denuclearization talks with South Korea, continuing its plutonium production, and the testing its Nodong missile.⁷⁹ Despite this behavior, the Clinton administration assured North Korea that "it will not take military action against it or interfere with its internal affairs,"⁸⁰ yet made it very clear that if North Korea were to use nuclear weapons, that it would "be the end of their country."⁸¹

Despite North Korea's provocative behavior, the Clinton administration targeted North Korea's isolation as a chance to shift U.S. foreign policy from a Cold War containment strategy to a moderate, engagement approach. North Korea was presented benefits and opportunities in exchange for its cooperation, with offers of financial, food and energy aid, as well as bilateral dialogue.

One of the most notable achievements of the Clinton administration was the Agreed Framework, established in October 1994, just months after the death of Kim Il Sung. The Agreed Framework presented North Korea with the

⁷⁸ "North Korea Nuclear/Missile Chronology - 1962-2000," *The Wisconsin Project on Nuclear Arms Control*, Volume 6 Number 6 (November-December 2000), <http://www.wisconsinproject.org/countries/nkorea/nuke-miss-chron.htm> (accessed September 27, 2007).

⁷⁹ *Ibid.*

⁸⁰ "U.S. - North Korean Relations Timeline: 1853-2006," *British American Security Information Council*, October 19, 2006, <http://www.basicint.org/nuclear/northkorea-chronology.htm> (accessed July 20, 2007).

⁸¹ Paul F. Horvitz, "Nuclear Arms 'Cannot Be Allowed' In Pyongyang's Control, He Asserts: Clinton Warns North Korea Against Attack on the South," *International Herald Tribune*, November 8, 1993, http://www.iht.com/articles/1993/11/08/kor_4.php (accessed September 27, 2007).

opportunity for normalized diplomatic and economic relations, conditional upon its adherence to the Framework's guidelines. This opportunity offered the provision and financing of proliferation-resistant light water reactors to North Korea for the exclusive purpose of "peaceful uses of nuclear energy,"⁸² in exchange for its cooperation to shut down its plutonium program.⁸³ It also provided assurances that the United States would not threaten or use nuclear weapons against North Korea.⁸⁴ While the Agreed Framework did establish guidelines toward denuclearization, as well as provide a stepping stone from a bilateral to multilateral forum that would become the Six-Party Talks by 2002, it broke down in 2003 when North Korea withdrew from the NPT.

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A later product of the Clinton Administration was the establishment of a North Korea Policy Coordinator in 1998, and the appointment of Dr. William J. Perry to that position.⁸⁶ In 1999, William Perry produced the Perry

82 "Solving the North Korea Nuclear Puzzle - Appendix 2: Agreed Framework between the United States of America and the Democratic People's Republic of Korea," *Institute for Science and International Security*, October 21, 1994, <http://www.isis-online.org/publications/dprk/book/af.html> (accessed September 29, 2007).

83 "Overview of U.S. Policy Toward North Korea: Security Issues," *Friends Committee on National Legislation*, http://www.fcnl.org/issues/item.php?item_id=1096&issue_id=34 (October 6 2004).

84 "Solving the North Korea Nuclear Puzzle - Appendix 2: Agreed Framework between the United States of America and the Democratic People's Republic of Korea," *Institute for Science and International Security*, October 21, 1994, <http://www.isis-online.org/publications/dprk/book/af.html> (accessed September 29, 2007).

85 Scott Snyder, "The Fire Last Time," *Foreign Affairs*, July/August 2004, <http://www.foreignaffairs.org/20040701fareviewessay83415/scott-snyder/the-fire-last-time.html> (accessed September 29, 2007).

86 James P. Rubin, "Four Party Talks on the Korean Peninsula, 1997-98," *Department of State Press Statement*, November 12, 1998 <http://seoul.usembassy.gov/11/12/98.html> (accessed September 29, 2007).

Report, which established two options in dealing with North Korea's myriad of problems in order of importance: nuclear weapons, ballistic missiles, chemical and biological weapons, conventional arms, political issues and human rights.⁸⁷ The Perry Report presented two options that North Korea could pursue, based on their compliance or lack thereof; being "peaceful coexistence," or "increasing animosity" at the other end of the spectrum.⁸⁸

Perhaps the late establishment of the Perry Report contributed to stagnation in the resolution of the North Korea problem. Because it took an entire administration to provide North Korea with the two options it would face depending on its level of cooperation, it gave North Korea time to contemplate its next move. North Korea's fluctuating level of cooperation and commitment to programs and treaties resulted in the Clinton administration being blamed for allowing North Korea to repeatedly blackmail the United States.

Regarding North Korea's illicit activities, the Clinton administration placed more attention on the nuclear issue to prevent the further testing and development of missiles and weapons, as it was a more imminent threat to regional security. Consequently, the 1999 Perry Report does not even mention illicit activities in its findings and recommendations for the review of U.S. policy toward North

⁸⁷ Daniel A. Pinkston, "Back to the Future," *Ripon Forum*, April/May 2007, http://cns.miis.edu/pubs/other/pinkston_ripon_society_forum_april2007.pdf (accessed August 20, 2007).

⁸⁸ Ibid.

Korea.⁸⁹ It would not be until the terrorist attacks on September 11, 2001, that any significant headway would be made in targeting the illicit financial transactions of those countries named in the "axis of evil."

Despite a change to a Republican administration, the G. W. Bush administration has not been able to lure North Korea into compliance with international standards. Where the Clinton administration made a strong effort to engage North Korea diplomatically and financially, making it the highest recipient of U.S. aid in Asia,⁹⁰ the Bush administration began with an opposite, hardliner approach. While engagement was such a strong policy of the Clinton administration, that former Secretary of State Madeline Albright made a visit to North Korea,⁹¹ the Bush administration refused to have any bilateral dealings with the country. Instead, the G. W. Bush administration revised North Korea policy according to its preference for a multilateral approach. In contrast to the Clinton administration's policies, the following excerpt summarizes the Bush administration's reversal of those moderate approaches:

⁸⁹ Dr. William J. Perry, "Review of United States Policy Toward North Korea: Findings and Recommendations," *Office of the North Korea Policy Coordinator, United States Department of State, October 12, 1999*, <http://www.belfercenter.org/files/1997%20NKPR.pdf> (accessed September 27, 2007).

⁹⁰ Christopher Cox - House Policy Committee Chairman, "Clinton-Gore Aid to North Korea Supports Kim Jong-Il's Million-Man Army - Enough Plutonium to Build 65 Nuclear Bombs A Year," *House Policy Committee Paper*, July 27, 2000, http://nautilus.org/archives/pub/ftp/napsnet/special_reports/Cox_Report_on_DPRK_Aid.txt (accessed September 29, 2007).

⁹¹ "Overview of U.S. Policy Toward North Korea: Security Issues," *Friends Committee on National Legislation*, http://www.fcnl.org/issues/item.php?item_id=1096&issue_id=34 (October 6 2004).

The thesis underlying a new approach to North Korea is that the United States must alter the balance of power in negotiations - that *rewarding* cessation of bad behavior ("carrots") has failed, and that *disincentives* ("sticks") to such behavior must be included in any new negotiations for them to have any hope of producing acceptable results. *U.S. bargaining power must exceed that of North Korea in order to compel North Korea to dismantle its nuclear and weapons programs and to abide by its agreements.* To achieve this advantage in the negotiations, the United States must be prepared to end all U.S. aid to North Korea under the Agreed Framework, reimpose sanctions lifted in 1999, and impose a quarantine to cut off its supply of hard currency and stop its weapons proliferation activity.⁹²

While North Korea has been involved in illicit activities since the 1970s, the country has only faced economic sanctions, which stops legitimate financial transactions, and did not focus on precluding the country from becoming involved in illicit activities. The difference in regard to illicit activities between the Clinton and Bush administrations is that the G. W. Bush administration specifically addressed illicit activities, particularly smuggling and counterfeiting, in the revision of U.S. policy toward North Korea.⁹³

While the Bush administration took an immediate tough approach on a number of programs, it has had to scale back its hardliner rhetoric to foster cooperation not only with

⁹² "North Korea: Time to Change the Dynamic," *U.S. Senate Republican Policy Committee*, March 4, 2003, <http://www.nautilus.org/DPRKBriefingBook/uspolicy/Counterpoint-RNCExecutiveSummary.pdf> (accessed September 27, 2007).

⁹³ Daniel A. Pinkston, "Back to the Future," *Ripon Forum*, April/May 2007, http://cns.miis.edu/pubs/other/pinkston_ripon_society_forum_april2007.pdf (accessed August 20, 2007).

North Korea, but the region. For example, Bush was initially very critical of South Korea's Sunshine Policy that provides legitimate financial opportunities and peninsular stability. Whereas South Korea is hoping to foster cooperative behavior by North Korea through engagement, the G. W. Bush administration criticized its efforts despite its own refusal to deal bilaterally with North Korea. Further, President Bush's name calling of North Korea as the "axis of evil," "an oppressive regime," "an outpost of tyranny," and a "shameless charlatan" did not help to encourage North Korea's level of cooperation with the United States.⁹⁴ Consequently, after such accusations, North Korea withdrew from negotiations.⁹⁵ The G. W. Bush administration has begun to cautiously shift its policy to a slightly more engaging approach by sending Assistant Secretary of State for East Asian and Pacific Affairs, Christopher Hill to North Korea in 2007 to discuss the denuclearization issue.⁹⁶

In order to counter North Korea's efforts to engage in illicit activities that fund its weapons program, the United States has developed several law enforcement programs that function multilaterally. The following section will review the United States policy response toward North Korea's

⁹⁴ "U.S. - North Korean Relations Timeline: 1853-2006," *British American Security Information Council*, October 19, 2006, <http://www.basicint.org/nuclear/northkorea-chronology.htm> (accessed July 20, 2007).

⁹⁵ Ibid.

⁹⁶ "U.S. Envoy Visits North Korea Over Disarmament Deal," *Public Broadcast System*, June 21, 2007, http://www.pbs.org/newshour/updates/asia/jan-june07/nkorea_06-21.html accessed October 5, 2007).

illicit activities, and will address those law enforcement initiatives established by the Bush administration.

D. U.S. POLICY RESPONSES TO NORTH KOREA'S ILLICIT ACTIVITIES

The discussions in Chapter I explain the debate between hardliners and moderates, and their suggested approaches on how to deal with North Korea. The hardliners argue that a tough stance toward North Korea necessitates continued sanctions, and recommends no bilateral meetings until North Korea comes into compliance with international standards. The moderates argue that a bilateral approach is necessary in order to get North Korea to join the international community in a legitimate manner. The following discussions on U.S. policy responses will describe the types of diplomatic and law enforcement approaches that have occurred in response to North Korea's illicit activities.

1. Diplomatic Responses

Diplomatic measures have been applied through a number of means in order to lure North Korea away from its illicit activities. The United States has offered over \$1 billion in food, oil and financial assistance from 1995-2003.⁹⁷ South Korea and Japan similarly contribute assistance to North Korea, but China stands as the leading contributor of food aid to North Korea.⁹⁸ However, each country's aid forms are accompanied by denuclearization and security conditions which North Korea must satisfy in order to

⁹⁷ Mark E. Manyin, Ryun Jun, "U.S. Assistance to North Korea," *Congressional Research Service*, RL31785, March 13, 2003, 5.

⁹⁸ *Ibid*, 14.

qualify for continued assistance, which each have taken their turn in suspending aid until North Korea cooperates with those conditions.⁹⁹ North Korea has also been offered regional trade opportunities, with one such prospect being the Kaesong industrial complex, located north of the demilitarized zone, which could potentially enable North Korea to improve its financial situation, thus reducing its need to rely on illicit activities.

South Korea has pursued diplomacy through a trade approach with North Korea over the past decade by adapting to the threat that the North presents militarily, as well as financially. Like China, invasion or reunification would present a huge financial challenge to the South. Therefore, South Korea has taken an interactive, interdependent approach to diminishing the chance that North Korea would destroy its own financial future by employing nuclear weapons that it has built through illicit funds. This trade plan was initiated by Kim Dae Jung as the Sunshine Policy, which separates politics and economics, promotes interaction and economic assistance, and works toward three principles.¹⁰⁰ These principles include that armed provocation will not be tolerated, that the South will not attempt to absorb the North, and that the South seeks to cooperate with North Korea.¹⁰¹ The Sunshine Policy trade initiative has developed from a cooperative foreign policy approach, to an economically interdependent financial

⁹⁹ Mark E. Manyin, Ryun Jun, "U.S. Assistance to North Korea," *Congressional Research Service*, RL31785, March 13, 2003, 14, 15.

¹⁰⁰ "Background Note: North Korea," *United States Department of State Bureau of East Asian and Pacific Affairs*, April 2007, <http://www.state.gov/r/pa/ei/bgn/2792.htm> (accessed June 1, 2007).

¹⁰¹ *Ibid.*

policy. Not only has it developed tourism between the two countries with the Mt. Kumgang resort area, it has developed an industrial complex in Kaesong, which by 2012, hopes to employ 700,000 North Koreans.¹⁰² The Kaesong industrial complex lies just 6 miles north of the demilitarized zone and will host nearly 250 South Korean companies, which provide their own infrastructure to include power, supplies, and a market where these goods would be sold.¹⁰³ While some critics claim that the South Korean government is too conciliatory toward the North, it does create a sense of economic interdependence and provides South Korea with a close, inexpensive manufacturing and production base with its North Korean neighbors.

South Korea's economic engagement with North Korea is a means to encourage the country's development and hopeful cooperation on diplomatic issues, which is slowly being achieved. Most recently, the North-South Summit in October 2007 produced positive results, as North Korea agreed to work toward a permanent peace solution, as well as resolve other important peninsular issues to include joint fishing areas and economic zones.¹⁰⁴

¹⁰² Norimitsu Onishi, "South Brings Capitalism, Well Isolated, to North Korea," *The New York Times*, July 18, 2006, <http://www.nytimes.com/2006/07/18/world/asia/18korea.html?ex=1310875200&en=79aa3be470698e6e&ei=5088&partner=rssnyt&emc=rss> (accessed June 3, 2007).

¹⁰³ "Background Note: North Korea," *United States Department of State Bureau of East Asian and Pacific Affairs*, April 2007 <http://www.state.gov/r/pa/ei/bgn/2792.htm> (accessed June 1, 2007).

¹⁰⁴ "Korean Leaders Sign Peace Pledge," *Cable News Network*, October 5, 2007, <http://www.cnn.com/2007/world/asiapcf/10/04/koreas.summit/index.html> (accessed October 5, 2007).

2. Law Enforcement Responses

A number of law enforcement programs were developed and initiated in 2003 as a result of North Korea's illicit activities, which have garnered negative publicity since the late 1990s. Initiatives were developed to target the illicit activities, from the actual counterfeited goods, to the money, and to the financial institutions that facilitate illicit transactions. While the programs currently in place originated from a U.S. policy initiative, the cooperation of countries in the region is increasing in a multilateral effort to curb North Korea's illicit activities.

In 2003, the Bush administration designed the Illicit Activities Initiative in an effort to disable North Korea's involvement in criminal activity. The initiative targets the money gained from the sale of goods to include drugs, narcotics, counterfeit U.S. currency, cigarettes and pharmaceuticals. The initiative is comprised of more than 100 law enforcement officials, fourteen U.S. government agencies, fifteen foreign governments, and has individual committees which are dedicated to each type of illicit activity that North Korea conducts.¹⁰⁵ In an effort to target counterfeit and/or laundered monies, the Secret Service has conducted training and seminars in 23 countries to train financial institutions and law enforcement groups.¹⁰⁶

¹⁰⁵ Edward R. Royce, "Gangster Regime: How North Korea Counterfeits United States Currency," *United States House of Representatives*, March 12, 2007, 16.

¹⁰⁶ Todd Bullock, "Narcotics, Counterfeiting Help Fund North Korea, U.S. Says," *United States Department of State*, April 26, 2006, <http://usinfo.state.gov/eap/Archive/2006/Apr/26-294718.html> (accessed June 1, 2007).

Section 311 of the Patriot Act, which targets banks involved in the facilitation of terrorism against the United States, is what allowed for the three-year investigation which led to the freezing of \$24 million of North Korean assets.¹⁰⁷ Banco Delta Asia in Macao has been managing North Korea's accounts for over 20 years, and was discovered to be facilitating money laundering by allowing deposits of counterfeit U.S. currency transactions deriving from illicit activities.¹⁰⁸ The freezing of these assets angered North Korea, resulting in its withdrawal from the Six Party Talks. However, because of the financial dilemma that the freeze created for North Korea, the country agreed to come back to the negotiation table if the funds were unfrozen.

While the freeze temporarily blocked North Korea from continuing its activities, it did succeed in sending a clear message to countries and banks around the world that facilitating illicit transactions and monies has serious consequences. Regional reactions to the Banco Delta Asia freeze resulted in China, South Korea, Japan, Vietnam, Mongolia, Thailand and Singapore suspending financial transactions with North Korea.¹⁰⁹ Additionally, the Bank of China suspended its own Macau branch from conducting business with North Korea because of suspicions that North

¹⁰⁷ Bruce Klingner, "Banco Delta Asia Ruling Complicates North Korean Nuclear Deal," *The Heritage Foundation*, March 15, 2007, <http://www.heritage.org/Research/AsiaandthePacific/wm1398.cfm> (accessed May 4, 2007).

¹⁰⁸ Edward R. Royce, "Gangster Regime: How North Korea Counterfeits United States Currency," *United States House of Representatives*, March 12, 2007

¹⁰⁹ *Ibid.*

Korea was counterfeiting Chinese Yuan.¹¹⁰ Because of the freeze, Banco Delta Asia "reportedly lost a third of its deposits in six days," which confirms the severe implications of conducting illicit transaction for North Korea.¹¹¹

The Proliferation Security Initiative was implemented on May 31, 2003, and is designed to target the shipment and trafficking of weapons of mass destruction and related materials.¹¹² Inspecting suspicious ships enables law enforcement agencies in the region to search for the goods and products that contribute to North Korea's illicit activities. The Proliferation Security Initiative is a multilateral approach which seeks to limit North Korea's potential to traffic the goods which contribute to the country's weapons program. It began with eleven member countries, with additional countries endorsing the program. However, the only countries in the Asia-Pacific region that became signatories are Japan and Australia.¹¹³ The lack of Asian cooperation to the Proliferation Security Initiative, namely China and South Korea, creates a gap in enforcement and limits the Initiative's potential success.¹¹⁴

¹¹⁰ Shipeng Guo and John Ruwitch, "China Grapples with North Korea's Illicit Dealings," *Yahoo! Asia News*, Reuters, August 1, 2005, <http://asia.news.yahoo.com/060801/3/2nv5v.html> (accessed June 3, 2007).

¹¹¹ Edward R. Royce, "Gangster Regime: How North Korea Counterfeits United States Currency," *United States House of Representatives*, March 12, 2007.

¹¹² "What is the Proliferation Security Initiative?" *United States Department of State*, <http://usinfo.state.gov/products/pubs/proliferation/> (accessed June 2, 2007).

¹¹³ Ibid.

¹¹⁴ Raphael Perl and Dick K. Nanto, "North Korea Crime for Profit Activities," *Congressional Research Service*, RL33885, February 16, 2007, 15.

The Container Security Initiative (CSI), developed in 2003, targets sea cargo bound for United States, with the "primary purpose to protect the global trading system and the trade lanes between CSI ports and the United States."¹¹⁵ The difference between this program and typical cargo inspections is that the Container Security Initiative moves the location of inspection outward, inspecting cargo before it arrives at U.S. ports. While the Container Security Initiative screens for potentially dangerous materials or illicit goods bound for the United States, it is limited only to U.S. ports. Fifty-two ports around the world now have their own similar container security program, which enhances the success of discovering weapons and illicit goods that are bound for those countries.¹¹⁶ However, the overall success of a global security container initiative is limited because more countries have not yet implemented such programs.¹¹⁷

Beyond the law enforcement programs initiated by the United States, the United Nations has also taken steps to curb North Korea's illicit activities. North Korea's nuclear test in October 2006 resulted in a unanimous vote to implement United Nations Resolution 1718, which inspects cargo for nuclear and conventional weapons, luxury items,

¹¹⁵ "Container Security Initiative Fact Sheet," *U.S. Department of Homeland Security Press Office*, September 30, 2006, http://www.customs.treas.gov/linkhandler/cgov/border_security/international_activities/csi/csi_fact_sheet.ctt/csi_fact_sheet.doc (accessed June 2, 2007).

¹¹⁶ *Ibid.*

¹¹⁷ "Container Security Initiative Fact Sheet," *U.S. Department of Homeland Security Press Office*, September 30, 2006, http://www.customs.treas.gov/linkhandler/cgov/border_security/international_activities/csi/csi_fact_sheet.ctt/csi_fact_sheet.doc (accessed June 2, 2007).

and can freeze the assets of North Korean officials.¹¹⁸ While this resolution does not prevent North Korea from engaging economically with other countries, it does seek to hinder its ability to procure materials that could be used in the production of nuclear weapons, as well as materials that could potentially support counterfeiting or other illicit operations.

The United States has developed a combination of diplomatic and law enforcement responses that are designed to hinder North Korea's ability to continue and further its involvement in illicit activities. While these programs have the potential to seriously curb illicit activities, multilateral cooperation will be needed for the programs to reach their full potential. The following section will analyze how North Korea's illicit activities affect the region, and will assess U.S. policy options to further develop these diplomatic and law enforcement programs.

¹¹⁸ "Security Council Condemns Nuclear Test By Democratic People's Republic Of Korea, Unanimously Adopting Resolution 1718 (2006)," United Nations Department Of Public Information, News And Media Division, New York, <http://www.un.org/news/press/docs/2006/sc8853.doc.htm> (accessed June 5, 2007).

IV. THE IMPLICATIONS OF NORTH KOREA'S ILLICIT ACTIVITIES AND U.S POLICY OPTIONS

A. INTRODUCTION

This chapter will examine the far-reaching security implications of North Korea's involvement in illicit activities, analyzing the security, economic and social ramifications on North Korea, the region, and U.S. interests. It will then analyze the options available to U.S. policy makers in dealing with these activities.

B. THE EFFECTS OF NORTH KOREA'S ILLICIT ACTIVITIES ON NORTHEAST ASIA'S SECURITY

The implications of North Korea's illicit activities involve security, economic and social threats that affect Northeast Asia and U.S. interests.

1. SECURITY

The regional security threat that evolves from North Korea's illicit activities is that the resulting profits fund the country's ability to conduct research and development for its nuclear program. The region's fear is that North Korea will then incorporate these technologies to produce nuclear weapons technology. These products could pose a threat if used by North Korea, or if they are trafficked to rogue nations or non-state actors that could potentially threaten regional and U.S. security interests.

North Korea has validated the region's fears through its various examples of belligerent behavior. For example, in 2006, it conducted Taepodong II long-range missile tests,

and in 1998,¹¹⁹ conducted a Taepodong I long-range missile test that over flew Northern Japan.¹²⁰ North Korea's missile tests are significant because it is not a member of the Missile Technology Control Regime (MTCR), which seeks to restrict the proliferation of missiles that could carry weapons of mass destruction. These missile tests, whether they are conducted for testing purposes or as a retaliatory media stunt, displays to prospective buyers the missile's operational capabilities. The proliferation of missile technology and operational missiles carries great consequences because they could be sold to rogue nations or non-state actors that could upset regional and international security.

More specific to Northeast Asia was how North Korea's missile tests upset Japan's security posture. Because the missiles passed over its territory, Japan feels the most threatened, perhaps because of the historical animosity between the two countries, but also because it does not know if those missiles could have been aimed at the Japanese mainland. Japan responded to the missile tests by not only imposing economic sanctions resulting in a loss of \$133

¹¹⁹ Arpita Mathur, "Japan's Response to North Korea's Nuclear Test," *Institute for Defence Studies and Analyses*, New Delhi, India, (Oct-Dec 2006), <http://www.idsa.in/publications/strategic-analysis/2006/oct-dec06/Arpita.pdf> (accessed October 28, 2007).

¹²⁰ Balbina Hwang, "A North Korean Missile Test: Implications for U.S. Policy and the Region," *The Heritage Foundation*, June 20, 2006, <http://www.heritage.org/Research/AsiaandthePacific/wm1134.cfm> (accessed October 28, 2007).

million in 2005 for North Korea's already fragile economy, but by fortifying the U.S. - Japan Alliance to protect the region.¹²¹

2. Economic

The economic threat that illicit activities pose extends far beyond Northeast Asia. For example, the implications of counterfeiting U.S. currency can affect the stability of the U.S. dollar, as well as the integrity of the banking systems through which the monies pass. Among the \$730 billion worth of U.S. currency that circulates through U.S. and foreign banks worldwide, only a small fraction of this money is believed to be counterfeited. However, the suspicion that arises from increased counterfeiting can also challenge the integrity of the currency.¹²²

Banks fearing the acceptance of counterfeit "supernotes," has resulted in some countries refusing the receipt of \$100 bills, as occurred Taiwan in 2004, and Peru in 2005.¹²³ The counterfeiting of U.S. currency can destabilize confidence in the U.S. dollar, depress its value, and cause banks to either not accept the bills, or

121 Arpita Mathur, "Japan's Response to North Korea's Nuclear Test," *Institute for Defence Studies and Analyses*, New Delhi, India, (Oct-Dec 2006), <http://www.idsa.in/publications/strategic-analysis/2006/oct-dec06/Arpita.pdf> (accessed October 28, 2007).

122 Bill Gertz, "North Korea Charged in Counterfeiting of U.S. Currency," *The Washington Times*, December 2, 2005, http://www.washingtontimes.com/world/20051201-103509-5867r_page2.htm (accessed June 1, 2007).

123 Todd Bullock, "Narcotics, Counterfeiting Help Fund North Korea, U.S. Says," *United States Department of State Website*, April 26, 2006, <http://usinfo.state.gov/eap/Archive/2006/Apr/26-294718.html> (accessed June 1, 2007).

impose fees on bank customers to change the money. Additionally, the United States must continually change the design of the bills to make counterfeiting more difficult. The "resigning, printing, introducing and removing old notes" from the currency inventory comes at a heavy cost to the U.S. government.¹²⁴ Beyond the counterfeiting of U.S. currency, cigarettes and pharmaceuticals counterfeiting violates product patents, as well as places a risk on the jobs of workers producing genuine products.

3. Social

The social ramifications of North Korea's illicit activities are more widespread, in that it could potentially touch the lives of nearly anyone in the world. Anyone that ingests a counterfeit pharmaceutical, smokes a counterfeit cigarette, facilitates a transaction based on counterfeit U.S. currency, or consumes the opium, heroin, methamphetamines or ecstasy that North Korea produces and exports are propagating the regime.

Perhaps the most tragic implication of North Korea's illicit activities is the impact on the North Koreans themselves, and the human rights abuses they face both at home and in the hands of human traffickers. For those North Koreans trafficked into China, they continually endure human rights violations, and even more so when China deports them back to North Korea to face whatever punishment awaits them upon their return.

¹²⁴ Edward R. Royce, "Gangster Regime: How North Korea Counterfeits United States Currency," *United States House of Representatives*, March 12, 2007.

Within North Korea, the population faces food shortages and malnutrition because their government diverts land and resources that could be used for food production for the production of drugs. It could also be assumed that North Korea is diverting any technology that could potentially improve the economy and the quality of life is similarly being diverted to the production of missile technology and supporting other illicit activities.

The social implications of North Korea's illicit activities also affect both China and South Korea because North Koreans defect to each country in search of a better life. The U.S. Department of State estimates that China accommodates 30,000 - 50,000 North Koreans,¹²⁵ while South Korea has 1,000 North Koreans crossing the border each year.¹²⁶ Vietnam has become a safe haven for North Korean defectors which resulted in a transfer of 450 defectors to South Korea in 2004.¹²⁷ The migration of North Korean refugees in turn creates a burden on those respective economies because they have to absorb them into their social infrastructure.

C. POLICY OPTIONS AND RECOMMENDATIONS

There are a number of policy options available to U.S. policymakers, depending upon where on the moderate to hard

¹²⁵ Rhoda Margesson, Emma Chanlett-Avery, Andorra Bruno, North Korean "Refugees in China and Human Rights Issues: International Response and U.S. Policy Options" (Research Service, RL34189, September 26, 2007).

¹²⁶ "South Korea in Mystery Refugee Deal," *British Broadcast Company*, July 23, 2004, <http://news.bbc.co.uk/2/hi/asia-pacific/3919203.stm> (accessed October 28, 2007).

¹²⁷ Robert Marquand, *The Christian Science Monitor*, July 28, 2004, http://www.familycare.org/network/p01_article19.htm (accessed November 5, 2007).

line spectrum an administration positions itself. These options include maintaining the status quo, further developing programs already in place, encouraging further involvement of countries and organizations, and the application of aggressive options, such as expanded sanctions, aid cuts and asset freezes. Striking an effective balance of diplomacy, law enforcement and bilateral and multilateral engagement is the challenge facing U.S. foreign and defense policy toward North Korea.

1. Status Quo

Maintaining the status quo is one option that could be pursued by the United States. However, the success or failure of the measures that have been applied thus far can be subjectively argued depending on whether one supports either a hardliner or a moderate approach. Along the lines of a moderate approach, the diplomatic and law enforcement approaches that have slowly engaged North Korea are beginning to show signs of success and possible declearization. The Bush administration's gradual shift to a more engaging policy toward North Korea could encourage North Korea to cooperate in the denuclearization process, thus precluding its need to pursue illicit activities. However, the hardliner position argues that because illicit activities are still occurring and thus funding North Korea's nuclear program and the regime, that the diplomatic and law enforcement approaches have not been successful in prompting regime change or denuclearization.

While dialogue occurs at the negotiation table of the Six Party Talks regarding North Korea's nuclear weapons program, bilateral and multilateral dialogue with North

Korea regarding its illicit activities have largely been ignored. Whereas offers of aid and energy assistance are an incentive for North Korea to denuclearize, no incentives to discontinue illicit activities have been presented, with the exception of the freezing of its assets in Macao. However, because North Korea was able to convince the United States to unfreeze these funds in exchange for continued dialogue regarding the shut down of the Yongbyon reactor, North Korea knows how to manipulate the United States' law enforcement program.¹²⁸ While some Six Party Talks sidebars have occurred between China, South Korea and Japan with North Korea, the region as a whole does not appear to have collectively approached the North Korean government itself about illicit activities. With the exception of the Banco Delta Asia investigation that froze and unfroze North Korea's funds, which coincided with North Korea's threat not to return to the Six Party Talks, North Korea has been difficult to accurately track and effectively punish.

2. Development of Programs

An option that looks beyond the status quo option is to further develop the law enforcement programs already in place. Among the programs that exist, to include the Illicit Activities Initiative, the Proliferation Security Initiative, the Container Security Initiative, and the cargo searches resulting from United Nations Resolution 1781, more resources need to be aggressively devoted to these law enforcement efforts. While more inspections could lead to more seizures, leading to the disengagement of the

¹²⁸ Victor D. Cha, "Winning Asia," *Foreign Affairs* 86, no. 6, November/December 2007, 107.

international crime network that facilitate the activities, a potential key to success could be to recruit more countries as signatories to the programs. Because North Korea's illicit activities are perceived as a law enforcement issue, diplomatic policy could shift its perception of the problem, and encourage the law enforcement agencies' involvement in its diplomatic dealings. Without support on the diplomatic front, the law enforcement agencies of countries in the region will not have the support they need to develop programs. Additionally, the governments involved need to address the issues in their own countries that create the demand for the illicit products supplied and trafficked by North Korea.

The challenge that the Illicit Activities Initiative faces is that of resistance to its law enforcement investigations. This discouraged North Korea from participating in the Six Party Talks, when it refused to participate in further talks until its assets in Banco Delta Asia were unfrozen.¹²⁹ Another weakness of the Illicit Activities Initiative is that it is managed by career Foreign Service Officers at the Korea Desk of the State Department, which essentially diminishes its importance because it is not being promoted by prominent political appointees.¹³⁰ Recommendations to resolve these two issues are that proper financial and personnel resources be devoted to enable the initiative to succeed, as well as allowing

¹²⁹ Todd Bullock, "Narcotics, Counterfeiting Help Fund North Korea, U.S. Says," *United States Department of State*, April 26, 2006, <http://usinfo.state.gov/eap/Archive/2006/Apr/26-294718.html> (accessed June 1, 2007).

¹³⁰ Edward R., Royce, "Gangster Regime: How North Korea Counterfeits United States Currency," *United States House of Representatives*, March 12, 2007, 16.

access to the decision-makers that can appoint the proper government agencies to become involved.¹³¹

A positive result of Section 311 of the Patriot Act is that banks around the world paid close attention to the consequences that Banco Delta Asia faced. This incident further isolated North Korea from the international financial community, which indicates that Section 311 should be continued, as well as expanded in its tracking, investigations and punishment of accomplice banks.

3. Encourage Involvement

Perhaps the most important factor in collectively disabling North Korea's illicit activities is regional involvement. While U.S. foreign policy will likely continue to support diplomatic and law enforcement programs, effectively sharing these ideas and programs with countries in the region could make the difference. The following factors are ideas that both the United States and the region should consider:

a. Look Inward

A policy option that could curb the demand for North Korea's illicit products is to encourage governments to look inward at their own problems, such as drug addiction, China's one-child policy, female infanticide, and the demand for illegal goods such as ivory, conflict diamonds and rhino horns. In order to stop North Korea from producing, trafficking and supplying the region with illicit

¹³¹ Edward R., Royce, "Gangster Regime: How North Korea Counterfeits United States Currency," *United States House of Representatives*, March 12, 2007, 16.

goods, the demand for those products in the recipient countries needs to be addressed. The social issues that create the demand, as well as the criminal elements that act as the middleman between the North Korean suppliers need to be addressed and resolved.

b. Utilize International and Regional Organizations

International organizations could become more involved, such as the United Nations Human Rights Commission, which could press North Korea to allow Human Rights monitors to assess the internal situation. In line with a human rights issue, China signed the United Nations Convention for the Status of Refugees in 1951, with which it seldom complies, sending trafficked North Koreans back to their country to face punishment. China could be encouraged to not only adhere to this convention, but be encouraged to comply with human trafficking laws as well as address its own social and economic issues which create the demand for North Koreans to fill those gaps.

Regional organizations such as ASEAN could be more aggressive in addressing North Korea's activities. Thus far, an ASEAN Regional Forum meeting has only discussed its discontent with illicit activities without North Korea being present at the Forum.¹³²

The United Nations International Narcotic Control Board could be more aggressive in tapping into crime rings

¹³² Ah Young Kim, "A Narcotic State: Halt North Korea's Drug Habit," *International Herald Tribune*, June 18, 2003, http://www.iht.com/articles/2003/06/1D8/edkim_ed3.php (accessed June 2, 2007).

which work with North Korea to facilitate transactions by ensuring that countries adhere to international treaties. Current U.S. policy to counter the trafficking of drugs focuses on training and institution building to disable Taiwan from being a transit point for North Korean drugs.¹³³ Additionally, the 2004 reopening of the North Korean embassy in Mongolia is of interest because of the possibility that its diplomats could use it as a drug trafficking hub as it had in the past.¹³⁴

The Six Party Talks and its member countries could invite North Korea for sidebar meetings to discuss its illicit activities. While the Six Party Talks originally was formulated to deal with North Korea's nuclear issues, it has become a stepping stone to bilateral and trilateral sidebar talks, offering a "broad number of configurations" which "offers us the flexibility to mix and match as we need to develop ideas, to develop approaches" to the Six Party process.¹³⁵

The international financial community should also become more involved in disabling North Korea from facilitating illicit activities. For example, international banking institutions should exercise more integrity in their relationships with North Korean banks. The international

¹³³ "International Narcotics Control Strategy Report," Bureau of International Narcotics and Law Enforcement Affairs, March 2007, <http://www.state.gov/p/inl/rls/nrcrpt/2007/vol1/html/80859.htm> (accessed October 31, 2007).

¹³⁴ Ibid.

¹³⁵ "North Korea Current Issues," Press Conference At U.S. Embassy, Christopher Hill, Assistant Secretary for East Asian and Pacific Affairs, U.S. Embassy, Beijing, China, October 31, 2006 http://seoul.usembassy.gov/420_103106_1.html (accessed October 31, 2007).

financial community should be aware that North Korea utilizes its diplomatic missions as a means to conduct illicit activities. North Korean diplomats stationed at overseas consulates and embassies should therefore be monitored. Additionally, North Korean trading and shipping companies should similarly be monitored as they are utilized as front companies to ship illicit goods.¹³⁶

International law enforcement initiatives, such as the Proliferation Security Initiative should seek to encourage the participation of North Korea's neighboring key countries. China and South Korea are currently not members of the Proliferation Security Initiative, which limits the potential success of the program.¹³⁷ While China does not support the proliferation of weapons, it is known that other illicit activities are largely ignored along the North Korean - Chinese border.¹³⁸ South Korea's cooperation is also needed, but pressuring North Korea with the program is viewed as too harsh.¹³⁹ Additionally, the sharing of valuable intelligence and data about North Korea's illicit activities could better support law enforcement programs.

4. Assertive Options

While most of the aforementioned policy options have been implemented to at least some degree, North Korea continues to adapt to the measures that have been placed

¹³⁶ Balbina Y. Hwang, "Curtailing North Korea's Illicit Activities," *The Heritage Foundation*, August 25, 2003, <http://www.heritage.org/Research/AsiaandthePacific/bg1679.cfm> (accessed May 4, 2007).

¹³⁷ Ibid.

¹³⁸ Ibid.

¹³⁹ Ibid.

against it. More assertive options to include sanctions, aid cuts, and asset freezes have been placed against North Korea, but have not resulted in completely preventing North Korea from profiting from illicit activities. Instead, North Korea shifts its activities to new ones that were not previously under investigation, such as its shift from heavy poppy production to counterfeit cigarettes after the seizure of the Pong Su incident.¹⁴⁰ While assertive options would conceivably be more effective, North Korea has been very successful at forcing the international community to bend to its demands in order to gain its participation in the Six Party Talks. In order to gain North Korea's full attention, a complete withdrawal of aid, or expanded sanctions could be an option, but may produce an irrational reaction by North Korea, or produce a human disaster resulting in mass migration to South Korea or China.

Another assertive option could involve the United States indicting North Korean leaders for their involvement with drug smuggling and U.S. currency counterfeiting. In line with U.S. currency counterfeiting, the United States could "go on record condemning North Korea's illicit activities," in denouncing North Korea's counterfeiting activities as economic warfare against the United States.¹⁴¹

The aforementioned policy options describe steps that U.S. foreign policy could follow to curb North Korea's

¹⁴⁰ Todd Bullock, "Narcotics, Counterfeiting Help Fund North Korea, U.S. Says," *United States Department of State Website*, April 26, 2006, <http://usinfo.state.gov/eap/Archive/2006/Apr/26-294718.html> (accessed June 1, 2007).

¹⁴¹ Edward R. Royce, "Gangster Regime: How North Korea Counterfeits United States Currency," *United States House of Representatives*, March 12, 2007, 16.

involvement in illicit activities. The conclusion will assess why it has taken the U.S. foreign policy apparatus over three decades to address these illicit activities.

V. CONCLUSIONS

A. CONCLUSIONS

North Korea's involvement in illicit activities to fund its nuclear program presents a security threat to the region and U.S. interests. The estimated \$1 billion it earns annually from trafficking drugs, missiles, counterfeit cigarettes and pharmaceuticals, and other illicit goods collectively contribute to destabilizing the region.

There are two types of approaches that the United States and the region have applied to the problem, which fall into the diplomatic and law enforcement arenas. Neither has been entirely successful, which creates a debate between which approach may or may not work better, or if one should be pursued more than the other. Because North Korea has been successful at forcing the international community to bend to its demands, neither approach has entirely worked, or will work unless a different approach or combination of them is taken.

While the various law enforcement programs could have the potential to succeed, they are still in their infancy, and will require more signatories in the region. Without regional involvement and cooperation, North Korea is unlikely to feel enough pressure to cease its illicit activities.

While the aforementioned reasons look to the future on how to curb North Korea's illicit activities, to be addressed in section B, the following factors look to the

past. The subsequent factors are attributed to why it took the United States three decades to directly target North Korea's activities:

1. Containment of Communism Focus

The general foreign policy of the United States throughout the Cold War was one of containment. U.S. foreign policy toward North Korea was focused on maintaining peace on the peninsula, as well as addressing North Korea's rising nuclear concern. While it was during the Cold War that North Korea became involved in illicit activities, the potential threat of those illicit activities on the region and U.S. interests could not compete with the spread of communism and the growing nuclear threat.

2. Nuclear Threat Focus

United States foreign policy toward North Korea after the Cold War has been heavily focused on negotiating the denuclearization of the Korean peninsula. The U.S. withdrawal of nuclear weapons from South Korea was a hopeful example for North Korea to follow. However, a majority of U.S. foreign policy focus revolved around the Agreed Framework, and keeping North Korea not only at the negotiation table, but in compliance with the IAEA standards of the NPT. More recent U.S. foreign policy focus involves keeping North Korea at the negotiation table of the Six Party Talks, as well as strengthening U.S. relations with other member governments of the multilateral dialogue.

3. Natural and Human Disaster Focus

During the 1990s, multiple natural disasters of droughts and floods produced human disasters of famine and internally displaced peoples, which focused U.S. attention on humanitarian and development aid. Because these natural and human disasters also created a financial disaster for the North Korean government, it was during this time that it increased its involvement in illicit activities to not only sustain itself, but maintain legitimacy with the population. The United States' focus on sustaining a stable Korean peninsula through aid perhaps diverted attention from how North Korea was financially sustaining itself through illicit activities.

Again, the more immediate threat of a nuclear North Korea, coupled with the potential for a huge migration of North Koreans into South Korea or China trumped the threat of illicit activities.

4. Underestimation of the Threat of Illicit Funds

North Korea's resourcefulness was underestimated, and while it was known that North Korea was involved in illicit activities, it may not have been strongly suspected or confirmed that these funds were being funneled into its nuclear program, or that they presented a threat to regional stability or U.S. interests. Prior to the implementation of Section 311 of the Patriot Act, North Korea's illicit activities had not been aggressively addressed in diplomatic discussions, or tracked through law enforcement activities or discussions by either the United States or North Korea's Asian neighbors. Because these illicit activities went

either unchecked or were a low priority, in particular, its financial transactions, it was not known how intricately their existence had infiltrated mainstream banking and trading systems. In the example of the Banco Delta Asia asset freeze, it took a three-year investigation to amass the web of accounts that would be linked to illicit transactions.

B. POLICY RECOMMENDATIONS

The aforementioned points about the past describe reasons why the United States did not perceive North Korea's illicit activities as an imminent enough threat to implement policy against them. The following list describes policy recommendations that could diminish the threat of such activities from further affecting regional security and U.S. interests:

1. Regional Participation

The diplomatic and law enforcement approaches discussed in Chapter III have each led to some level of success in at least raising regional awareness to the North Korean illicit activities issues. However, a policy better integrating diplomatic and law enforcement measures would better enable the United States and the region to use one approach to push the other. For example, because South Korea and China are not participants in the Proliferation Security Initiative, the success of this program is limited without their support. Beyond law enforcement programs, continuing to build strong U.S. - China and U.S. - Japan bilateral relationships is imperative to keeping North Korea at the negotiation table. Moreover, ensuring that relations

between China and Japan are positive is equally important because their cooperation stabilizes the entire region.¹⁴² Additionally, encouraging China's involvement as a "responsible stakeholder" in the region indicates to North Korea not only that both superpowers want its cooperation, but that the United States views China as a true partner in the process.¹⁴³

2. Threat Perception

The United States and the region could change the perception about the threat that North Korea's illicit activities present to regional security. The U.S. foreign policy apparatus should be taking North Korea's illicit activities as seriously as it does the nuclear program because one funds the other. By placing more emphasis on the activities that fund the nuclear program, the region can more easily disable its nuclear development by cutting off North Korea's ability fund it through illicit goods. Integrating all of the aforementioned options, combined with more participation from countries in the region, as well as presenting a firm stance toward North Korea could demonstrate that the region will not bend to its demands and criminal behavior.

3. Continued Engagement Strategy

The Bush administrations' policy shift of engagement toward North Korea is beginning to pay dividends as North Korea has agreed to disable its nuclear program by the end

¹⁴² Victor D. Cha, "Winning Asia," *Foreign Affairs* 86, no. 6, November/December 2007, 102.

¹⁴³ Ibid., 100.

of 2008. Despite North Korea's history of blackmailing the United States, Assistant Secretary of State Christopher Hill's October 2007 meeting with North Korea has proven successful, at least preliminarily. The extension of incentives to include removing North Korea from the list of countries sponsoring terrorism, and offering the possibility of normalizing diplomatic and economic relations to North Korea could encourage its cooperation. As of September 2007, the State Department removed North Korea from its list of illicit drug producing countries.¹⁴⁴

This thesis sought to determine why it has taken the U.S. foreign policy apparatus three decades to seriously address North Korea's illicit activities. The conclusion to this question can be attributed to the pressing demand for U.S. policy focus on issues that diverted it from North Korea's involvement in illicit activities. These issues include the containment of communism, North Korea's nuclear threat, its natural and human disasters, and the underestimation of the threat that illicit activities pose to regional security.

Looking to the future, the United States foreign policy apparatus should continue an increasingly engaging policy toward North Korea in order to encourage its cooperation. The principles which have driven U.S. policy toward North Korea during the Bush administration that are based on a commitment to a diplomatic solution, a multilateral approach, and negotiations as a tactic to test North Korea's

¹⁴⁴ Bruce Klingner, "North Korea: Worrisome Gaps in Six-Party Talks' Joint Statement," The Heritage Foundation, October 4, 2007, <http://www.heritage.org/Research/AsiaandthePacific/wm1655.cfm> (accessed October 31, 2007).

seriousness, appear to be paying dividends.¹⁴⁵ Despite North Korea's lack of compliance with previous treaties and agreements, its most recent cooperation to begin the denuclearization process should be considered a positive result of the U.S. shift towards engagement, and that the economic incentives and the possibility of full diplomatic relations could pave the way to genuine cooperation.

145 Victor D. Cha, "Winning Asia," *Foreign Affairs* 86, no. 6, November/December 2007, 106.

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